



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

Chelan County Fire Protection District No. 7

(Chelan Fire and Rescue)

Chelan County

For the period January 1, 2014 through December 31, 2014

Published April 11, 2016

Report No. 1016466





Washington State Auditor's Office

April 11, 2016

Board of Commissioners
Chelan Fire and Rescue
Chelan, Washington

Report on Financial Statements

Please find attached our report on Chelan Fire and Rescue's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

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STATUS OF PRIOR AUDIT FINDINGS

Chelan Fire and Rescue Chelan County January 1, 2014 through December 31, 2014

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of Chelan Fire and Rescue. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: 1/1/2013-12/31/2013	Report Ref. No: 1013266	Finding Ref. No: 1
Finding Caption: The District should improve internal controls over accounting and financial statement preparation to ensure accurate and complete reporting.		
Background: We identified the following errors in the District's financial statements during our audit: <ul style="list-style-type: none">• The District's financial records did not accurately reflect transactions related to a major debt issuance and refinancing. As a result, the District's financial statements understated both income and expenditures from the receipt of bond proceeds and arrangements for the payoff of other debt by \$445,772.• The District misclassified bond proceeds of \$842,831 as tax revenues instead of as bond proceeds which is another financing source.• The District overstated compensated absences by \$125,645 due to including employee's sick leave balances in the calculation; however, the District does not pay employees for sick leave balances when employment is terminated.		
Recommendation: We recommend the District establish and follow internal control procedures to ensure: <ul style="list-style-type: none">• A more detailed review is performed of the monthly reconciliation between the District's general ledger and the County Treasurer's Reports, including a detailed review of expenditures and revenues.• Adequate research and technical guidance is sought when determining the proper reporting or accounting treatment for unique transactions.• The review of the financial statements, notes and supplementary schedules is performed at a level appropriate to detect significant errors. The District should consider using a checklist or other tool when reviewing the financial statements, notes and schedules.		
Status of Corrective Action: (check one) <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid		

Corrective Action Taken:

A detailed review of expenditures and revenues is performed when the reconciliation is done in reviewing the county treasurer reports and the district software. Guidance is sought when making a unique transaction in review of expenditures or revenues.

A check list is utilized each month to assure the reconciliation of expenditures and revenues of the county treasurer reports and district software are recorded and correct.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Chelan Fire and Rescue
Chelan County
January 1, 2014 through December 31, 2014**

Board of Commissioners
Chelan Fire and Rescue
Chelan, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Chelan Fire and Rescue, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated March 18, 2016.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

March 18, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Chelan Fire and Rescue Chelan County January 1, 2014 through December 31, 2014

Board of Commissioners
Chelan Fire and Rescue
Chelan, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Chelan Fire and Rescue, Washington, for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 12.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, Chelan Fire and Rescue has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Chelan Fire and Rescue, for the year ended December 31, 2014, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Chelan Fire and Rescue, as of December 31, 2014, or the

changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2016 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

March 18, 2016

FINANCIAL SECTION

**Chelan Fire and Rescue
Chelan County
January 1, 2014 through December 31, 2014**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2014
Notes to Financial Statements – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2014

Chelan County Fire Protection District No. 7
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2014

		<u>001 General Fund</u>
Beginning Cash and Investments		
30810	Reserved	659,928
30880	Unreserved	1,210,871
388 & 588	Prior Period Adjustments, Net	-
Operating Revenues		
310	Taxes	1,753,030
320	Licenses and Permits	-
330	Intergovernmental Revenues	17,578
340	Charges for Goods and Services	74,176
350	Fines and Penalties	-
360	Miscellaneous Revenues	5,516
Total Operating Revenues:		<u>1,850,301</u>
Operating Expenditures		
510	General Government	-
520	Public Safety	1,596,493
Total Operating Expenditures:		<u>1,596,493</u>
Net Operating Increase (Decrease):		<u>253,807</u>
Nonoperating Revenues		
370-380, 395 & 398	Other Financing Sources	251
391-393	Debt Proceeds	-
397	Transfers-In	-
Total Nonoperating Revenues:		<u>251</u>
Nonoperating Expenditures		
580, 596 & 599	Other Financing Uses	2,431
591-593	Debt Service	89,980
594-595	Capital Expenditures	821,445
597	Transfers-Out	-
Total Nonoperating Expenditures:		<u>913,856</u>
Net Increase (Decrease) in Cash and Investments:		<u>(659,798)</u>
Ending Cash and Investments		
50810	Reserved	-
50880	Unreserved	1,211,001

The accompanying notes are an integral part of this statement.

Chelan County Fire Protection District 7
MCAG: 1047

For the Year Ended December 31, 2014

Note 1 - Summary of Significant Accounting Policies

The Chelan County Fire Protection District 7 was incorporated on October 31, 1955 and operates under the laws of the state of Washington applicable to a fire protection district. The Chelan County Fire Protection District 7 is a special purpose local government and provides fire suppression, fire prevention and public education.

The Chelan County Fire Protection District 7 reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- All funds are presented, rather than a focus on major funds.
- The schedule of liabilities is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.
-

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Budgets

The Chelan County Fire Protection District 7 adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level except the general and current expense fund,

where budget is adopted at the department level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund: 001	\$2,282,247	\$2,510,350	\$228,103

Budgeted amounts are authorized to be transferred between (departments within any fund/object classes within departments); however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Chelan County Fire Protection District 7 legislative body.

D. Cash and Investments

See Note 2, *Deposits and Investments*

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$100 and an estimated useful life in excess of 1 years. Capital assets are inventoried and recorded when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 2 times annual leave and is payable upon separation or retirement. Sick leave may be accumulated up to 1040 hours. Upon separation or retirement employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Risk Management

The District's industrial insurance is provided by Washington State and is administered by the Department of Labor and Industries. Coverage is purchased by means of standard rates per working hour and is computed by the total number of hours worked by employees multiplied by the basic premium rate assigned to the business risk classification. The following are benefits provided by industrial insurance: medical services, damaged clothing, travel expenses, time-loss payments, vocational rehabilitation, partial disability awards, pension awards and survivor benefits.

Unemployment compensation is managed through the Federal/State system, which provides some compensation to workers who are temporarily and involuntarily unemployed. It is administered in Washington State by the Employment Security Department in accordance with provisions of the Employment Security Act. The District's employer status for unemployment insurance is as a "reimbursable" employer. There were no claims in 2014.

The Districts insurance carrier is Nicholson and Associates Insurance. The most recent renewal of coverage is in effect as of 09-01-2015 through 09-01-2016. The District maintains insurance against most normal hazards and general liability claims against the District. The policies include coverage for property, liability, auto, and errors and omissions. Issuing company is Continental Western Insurance Company. The insurance coverage is not a pool entity.

I. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by Resolution 2013-02. When expenditures that meet restrictions are incurred, the District intends to use reserved resources first before using unreserved amounts.

The reserve cash funds prepaid two outstanding lease purchase agreements, paid the costs of constructing and equipping a new fire station located at 12041 South Lake Shore, Chelan WA., including related improvements and paying the cost of issuance and sale of the bonds in 2013.

The transaction for the bonds took place May 29, 2013 and paying the lease agreement in full.

The new fire station was completed by contract standards and occupancy was granted February 2014 the remaining reserve funds were expended. 2014 through current date we have expended general funds to complete the remaining outstanding balances for improvements and completion of the facility. A retainage amount of \$2,769.00 remains as of January 1, 2015 and the district will expend the funds from the general account. Ending December 31, 2014 \$0.00 reported in reserve funds.

Note 2 – Deposits and Investments

It is the Districts policy to invest all temporary cash surpluses. The fire district's investments are in the Washington State Treasurer's Local Government Investment Pool (LGIP) at the original cost. The funds in the LGIP are held by the County as agent for the fire district. Interest earnings are recorded monthly when earned.

Investments are reported at original cost. Investments by type at December 31, 2014 are as follows:

Type of Investment	Fire Districts own investment	Investments held by County	Total
L.G.I.P.	\$0.00	\$553,860.46	\$553,860.46
Total	\$0.00	\$553,860.46	\$553,860.46

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed throughout month and reconciled month end.

Property tax revenues are recognized when cash is received by Chelan County Treasurer. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Chelan County Fire Protection District 7 regular levy for the year 2014 was \$ 1.06878 per \$1,000 on an assessed valuation of \$1,593,710,709 for a total regular levy of \$1,724,417 less new construction and annexations.

Note 4 – Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Chelan County Fire Protection District 7 and summarizes the Chelan County Fire Protection District 7 debt transactions for year ended December 31, 2014.

The debt service requirements for the non-voted general obligation bonds including both principle and interest, are as follows:

Year	General Obligations Bonds	Revenue Bonds	Other Debt	Total Debit
2015	89,623	0	0	89,623
2016	89,265	0	0	89,265
2017	88,770	0	0	88,770
2018	88,275	0	0	88,275
2019	91,900	0	0	91,900
2020 – 2024	465,200	0	0	465,200
2025 – 2029	464,200	0	0	464,200
2030 – 2031	180,200	0	0	180,200
TOTALS	1,557,433	0	0	1,557,433

Note 5 - Pension Plans

Substantially all Chelan County Fire Protection District 7 full-time and qualifying part-time employees participate in LEOFF II, PERS II & III administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the Chelan County Fire Protection District 7 financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

Note 6 – Other Disclosures

Schedule 9 Liabilities report of general obligations 259.11 Compensated Absences at year end consist of accrual vacation and comp time for career staff. 251.11 General Obligation Bond principle reported.

Schedule 15 State Grants report Office of the State Fire Marshal Basic Fire Fighter Training Program expenditures are throughout training budget back up documentation at request.

State of Washington Department of Labor and Industries Stay at Work Program reimbursement for base wages under light duty activities. Back up documentation at request.

Schedule 15 Federal Grants Department of Homeland Security Assistance to Fire fighters Grants Smoke Alarm program represents 100% grant portion in expenditures and reimbursement. Noncash inventory of smoke alarms and equipment is active and documentation is at request.

Chelan County Fire Protection District No. 7
Schedule of Liabilities
For the Year Ended December 31, 2014

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations						
259.11	Compensated Absences	12/31/2014	31,370	48,347	31,370	48,347
251.11	GO Bonds Non Voted	12/1/2031	1,220,000	-	55,000	1,165,000
Total General Obligations:			1,251,370	48,347	86,370	1,213,347
Total Liabilities:			1,251,370	48,347	86,370	1,213,347

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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